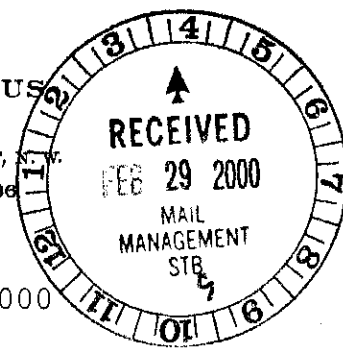


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February 29, 2000

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BY HAND DELIVERY

Hon. Vernon L. Williams, Secretary
Surface Transportation Board
Case Control Unit
Attn: STB Ex Parte No. 582
1925 K Street, N.W.
Washington, D.C. 20423-0001

RECEIVED
Office of the Secretary

FEB 29 2000

Part of
Public Record

Re: Ex Parte No. 582, Public Views
on Major Rail Consolidations

Dear Sir:

Enclosed for filing in the above-referenced proceeding are the original and 10 copies of the Statement of Glen D. Reeves on behalf of Salt River Project Agricultural Improvement and Power District. Also enclosed is a 3.5-inch diskette containing the text of this letter and the enclosed Statement in WordPerfect 8.0 format.

Please acknowledge receipt of the enclosed filings by stamping and returning to our messenger the enclosed duplicate of this letter.

Sincerely,

Christopher A. Mills

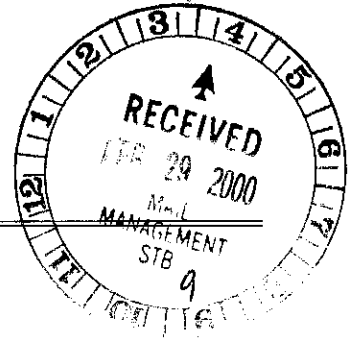
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Enclosures

BEFORE THE
SURFACE TRANSPORTATION BOARD

PUBLIC VIEWS ON MAJOR
RAIL CONSOLIDATIONS

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Ex Parte No. 582



**STATEMENT OF GLEN D. REEVES
ON BEHALF OF
SALT RIVER PROJECT AGRICULTURAL
IMPROVEMENT AND POWER DISTRICT**

RECEIVED
Office of the Secretary

FEB 29 2000

Part of
Public Record

My name is Glen D. Reeves. I am Manager - Fuels for Salt River Project Agricultural Improvement and Power District ("SRP"), with offices in Scottsdale, Arizona. I have been authorized to make this statement on behalf of SRP with respect to major rail consolidations.

BACKGROUND

SRP is an agricultural improvement district organized under the laws of Arizona, and a political subdivision of that state. SRP provides electricity to over 700,000 residential, commercial, industrial and agricultural power users in a 2,900 square-mile service territory in Arizona that includes a large portion of the Phoenix metropolitan area. SRP's retail service territory was opened to competition on December 31, 1998, providing customers with the opportunity to choose their generation supplier. SRP was recently recognized by J.D. Power

and Associates for providing the highest level of residential electric customer service in the western United States. SRP is also an active participant in the wholesale electric energy market in the southwest, competing with numerous other generators of electric energy.

SRP owns and operates the Coronado Generating Station ("Coronado"), a large coal-fired power plant located near St. Johns in northeastern Arizona. Coronado consumes approximately 2.5 million tons of coal annually. Coronado is served exclusively by The Burlington Northern and Santa Fe Railway Company ("BNSF"). Most of the coal consumed at Coronado originates from mines in New Mexico that are also served exclusively by BNSF. BNSF or its predecessor, The Atchison, Topeka and Santa Fe Railway Company ("Santa Fe"), has transported almost all of the coal consumed at Coronado since the plant began operation in the late 1970's.

SRP's interest in this proceeding arises from its experience in receiving rail deliveries of coal before and after the BN/Santa Fe merger in 1995. This experience causes SRP to be very concerned that further consolidations in the North American railroad industry -- such as the recently-proposed consolidation of BNSF and the Canadian National Railway Company ("CN")¹ --

¹ SRP takes no position at this time with respect to the BNSF/CN proposal, which is the subject of a separate proceeding.

will significantly impair the rail service SRP needs to assure a steady and dependable supply of coal for the generation of competitively priced electricity at Coronado.

SRP'S EXPERIENCE WITH THE BN/SANTA FE MERGER

Until the BN/Santa Fe merger, coal destined for Coronado was transported by the Santa Fe. The only coal origins served by the Santa Fe were in New Mexico, and Santa Fe had relatively few coal customers (such as SRP) that it reached with its own lines. While SRP did experience occasional service problems with the Santa Fe, when problems did occur we were able to access personnel or management at whatever level necessary to have our concerns heard and, for the most part, resolved.

Since the BN/Santa Fe merger, it is our belief that SRP (and the other coal customers formerly served by Santa Fe who consume New Mexico coal) have become less important to the new (and much larger) railroad, BNSF. BNSF appears to be concerned primarily with its coal traffic from the Powder River Basin, which produces coal in far larger volumes than the New Mexico mines, and with growing its intermodal traffic (which uses the same BNSF main line used by SRP coal trains). Customer service seems to be a foreign concept to BNSF. It has been quite obvious to SRP that BNSF does not have the resources or desire to address our specific issues. Rather, it attempts to offer service in a

"one size fits all" format with little or no regard to our needs or concerns.

Rail transportation of coal to Coronado is relatively simple. Most of the coal moves in unit trains of SRP-provided cars, and the distance involved is about 115 miles -- a very short haul by western standards. Santa Fe's service in delivering coal to Coronado was usually quite dependable prior to its merger with BN. Santa Fe dedicated locomotives to our service; train arrivals at the plant were scheduled on a regular basis; and deviations from the schedule were rare.

In the fall of 1995, shortly after the merger, SRP began to experience rail service problems. BNSF apparently was having trouble melding its two predecessor railroads together, and in particular was unable to provide adequate locomotives and train crews to move Coronado coal trains on a regular, predictable basis. Furthermore, problems such as billing errors and communication difficulties with railroad operation and maintenance forces became commonplace.

BNSF's service gradually improved in 1996. However, we still find that coal trains are often delayed due to the increasingly heavy intermodal and other freight traffic that

moves over the same high-density main line used by our trains.² BNSF no longer dedicates locomotives to Coronado service, and whenever coal deliveries are suspended for awhile (e.g., due to a scheduled plant maintenance outage), the railroad seems to have difficulty finding locomotives for our trains when shipments are resumed.

In its January 18, 2000 Quarterly Progress Report to the Board in the Union Pacific/Southern Pacific merger proceeding (Finance Docket No. 32760), BNSF took the occasion to laud its own improvements in service and reductions in costs that have occurred since the BN/Santa Fe merger. BNSF also recently issued a press release announcing 100% on-time performance for its coal business in January, 2000. While BNSF apparently has implemented a number of activities intended to improve service on a system-wide basis, most of these improvements have not manifested themselves to SRP. In fact, during recent Coronado rail contract negotiations, BNSF rejected out of hand SRP's request for concrete service commitments with specific penalties for failure to perform unless SRP was willing to agree to a price increase in

² Loaded coal trains from McKinley Mine, our principal supplier, operate over a 21-mile BNSF spur to a connection with BNSF's east-west transcontinental main line at Defiance, New Mexico. They then operate over about 49 miles of the BNSF east-west main line to Navajo, Arizona, where they leave the main line and traverse a 45-mile private spur owned by SRP and Tucson Electric Power Company to reach Coronado Station. Empty coal trains operate in the reverse direction.

return.³ This action is a far cry from BNSF's recently-announced "guarantee" that it and CN will provide their shippers with "existing or better rail service over their railroads after they are combined."

SRP'S CONCERNS WITH FUTURE RAIL CONSOLIDATIONS

SRP's experience with the BN/Santa Fe merger was not unique; we understand Powder River Basin coal shippers also experienced service problems after that merger even though it was largely an end-to-end merger. And of course, the Board is well aware of the service disruptions that occurred in the wake of the Union Pacific/Southern Pacific merger and the division of Conrail between CSX and Norfolk Southern. Such problems are likely to be exacerbated by further consolidations in the North American railroad industry. The Board is also undoubtedly aware of the recent signals from the four remaining large U.S. railroads that they intend to use their increased size and market power to raise prices (and, in one case, return to common carrier service rather than contract service as a means of accomplishing this).

These kinds of problems will only get worse if another round of major rail consolidations occurs. The record of poor service, combined with increased market power that enables the

³ The negotiations for a new contract ultimately failed, resulting in pending litigation between BNSF and SRP over SRP's right to terminate the parties' existing contract.

few remaining mega-railroads to dictate both economic and service terms to their shippers, requires that the Board take steps to protect captive rail shippers from the potential harmful effects of future major rail consolidations.

Specifically, SRP proposes that the Board adopt a policy under which it will impose a condition to its approval (if any) of all future Class 1 rail mergers and consolidations requiring the consolidating railroads to provide service to their captive shippers for a reasonable period following consummation of the transaction (up to five years) that is no worse than the level of service provided for a reasonable period prior to consummation of the transaction.

The condition proposed by SRP would also establish a presumption that any significant deterioration in service that occurs during this post-transaction period resulted from the transaction. Unless the railroad can show that the deterioration was caused by the customer or by force majeure events, the Board should then take steps to enable the shipper to obtain alternative rail service. The alternative service could take one of several forms depending on the circumstances, e.g., bottleneck rate relief or trackage rights in favor of an alternative service provider up to a specified maximum distance (at least 100 miles).

SRP believes that such a condition would provide merging railroads with a strong incentive to maintain pre-merger

service levels. This kind of condition is necessary to assure that future major rail consolidations do not result in inadequate service to those members of the public who must ship by rail, and who would not otherwise have the ability to counter the market power (or indifference) of the few remaining huge Class 1 railroads.